Special Briefing

on the FEED, LIVESTOCK, and FOOD SITUATION

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ECONOMIC RESEARCH SERVICE and FOREIGN AGRICULTURAL SERVICE

USDA's SPEAKERS

Don Paarlberg has been Director of Agricultural Economics, USDA, since March 1969. Prior to that, he was Hillenbrand professor of Agricultural Economics at Purdue University and during the Eisenhower Administration, he worked for USDA and on the White House staff. Married since 1940, Paarlberg and his wife Eva have two sons. Paarlberg has written extensively on agricultural subjects; his latest book being Great Myths of Economics. Paarlberg's undergraduate work was done at Purdue University, while his M.S. and Ph.D. degrees came from Cornell.

Quentin M. West is the Administrator of the Economic Research Service (ERS) of the U.S. Department of Agriculture. Before joining ERS in January 1972, he was the Administrator of the Foreign Economic Development Service (FEDS), which was merged with ERS in February 1972. Before joining FEDS, he had been director and deputy director of the Foreign Regional Analysis Division (ERS). Prior to coming to USDA in 1956, he served as a land use economist with the Organization of American States and was on the staffs of Cornell and Utah State Universities.

Richard J. Goodman is the Associate Administrator of the Department of Agriculture's Foreign Agricultural Service (FAS). A Milton, North Dakota, native, he was awarded his Ph. D. in agricultural economics from the University of Minnesota. Before joining the Department, Goodman worked as an extension economist at North Dakota State University and became a trade specialist for Great Plains Wheat, Inc. His career has also included the position of staff economist for the National Advisory Commission on Food and Fiber and a vice-presidency with Cook Industries, Inc. He joined FAS as a consultant and was appointed Associate Administrator in November 1972.

Don Seaborg is Assistant to the Director of the Commodity Economics Division, Economic Research Service. He has 14 years' experience in situation and outlook analysis with an emphasis on livestock. He received a B.S. in soils from the University of Wisconsin in 1954 and has an M.S. in agricultural economics from the same school. He was born and raised in Chicago, Illinois, and has a wife and 5 daughters.

Terry Barr, a Washington State native, received a Ph.D. in Economics from Washington State University. He has been with the Department of Agriculture and the Economic Research Service for over 3 years, working in the area of food consumption, and demand analysis. Barr is currently responsible for aggregate outlook analysis and the Demand and Price Situation.

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THE SUBJECTS

WORLD FOOD SITUATION

> A forecast of the 1974/75 world food situation must be very rough. Supply estimates include forecasts of crops not yet planted such as coarse grains in the Southern Hemisphere, crops whose harvest has not yet been completed or begun such as coarse grains in the Northern Hemisphere and the Asian rice crop, and crops for which it is difficult to get current verified estimates such as those in the Soviet Union and People's Republic of China (PRC). Demand analysis is hindered by limited guidance provided from historical experience as to the impact of unusually sharp price rises upon feed utilization and an incomplete understanding of how higher energy prices and worldwide inflation are affecting effective demand.

World food production in 1974/75 will be hard pressed to match last year's record totals. We now see a decline from last year's record high grain production to a level slightly below the long-term upward trend of the 1960's and early 1970's. This is tempered to a limited extent, however, by increases in livestock production. The rising trend in grain production over the years has allowed per capita food production to increase 1.5 percent annually in the developed nations and 0.4 percent a year in the less developed countries. With the bad news about the U.S. crop shortfalls, the picture for the world now is much more sobering than it was in the spring. Instead of a really fine production year, it may turn out disappointing, but this by no means indicates anything of disaster proportions.

World grain stocks are still very low and production prospects for grains are very uncertain at present for India, the People's Republic of China (PRC) and the Southern Hemisphere. Demand continues to be spurred by population and income growth. Real growth in GNP in Western Europe may gain 2 to 4 percent during 1974, but the Japanese growth rate may show only a 1.5 percent increase in real terms. Inflation is still a serious problem in these countries. The growth in real GNP is expected to show further gains in 1975. With supplies curtailed and demand growing, grain markets will continue to be very tight and prevent any significant rebuilding of stocks.

World wheat production is now expected to total about 360 million tons, slightly below last year's level. This is down about 9 million tons from the month-earlier estimate primarily because of a reduction in the Soviet, U.S., Australian, Canadian, and Indian estimates. Production increases in the major exporting countries--the United States, Canada, Argentina, and Australia--were particularly disappointing in view of high hopes held earlier in the season. Production fell off sharply in South Asia where

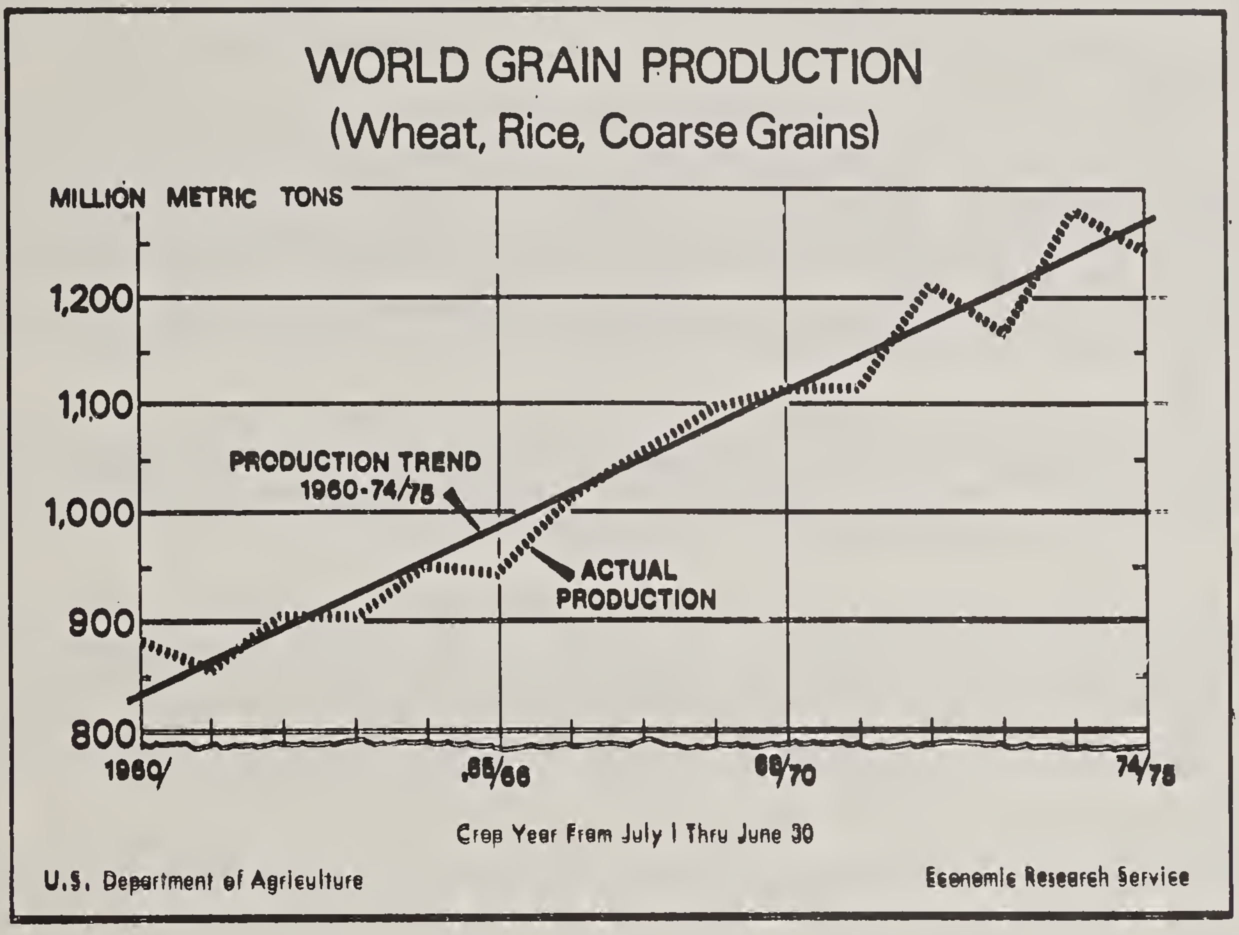
stocks were already at minimum levels. However, production increased in the less developed countries as a group at about the same rate as their increase in population. Import demand grew more rapidly than population because of income growth in some countries and substitution of wheat for rice in others.

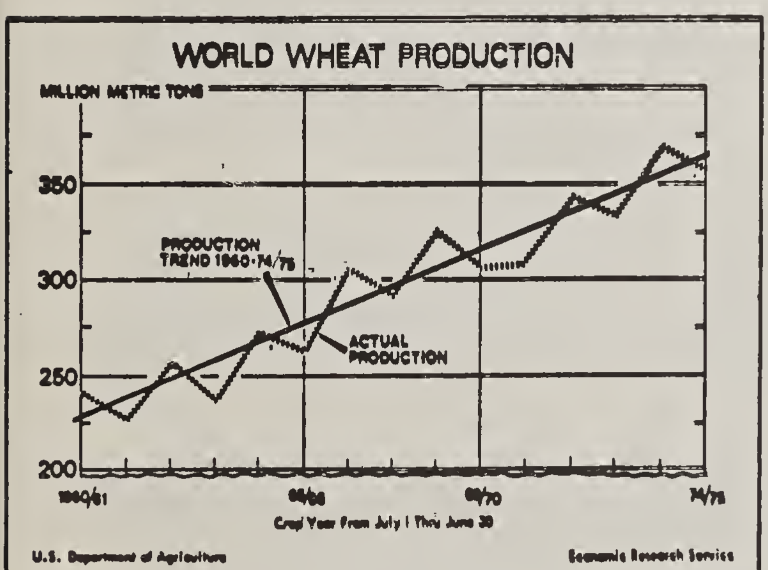
The world rice crop will depend largely upon the performance of the summer monsoon in Asia. Indications now are that the 1974/75 crop probably will not reach last year's record production. Dry weather has hurt crops in India, Thailand, South Vietnam, and the PRC. Flooding in Bangladesh will hurt their crop. The extent to which production shortfalls in countries such as India and Bangladesh will be translated into commercial or concessional imports of food grains is a factor adding more uncertainty to an analysis of the grains outlook.

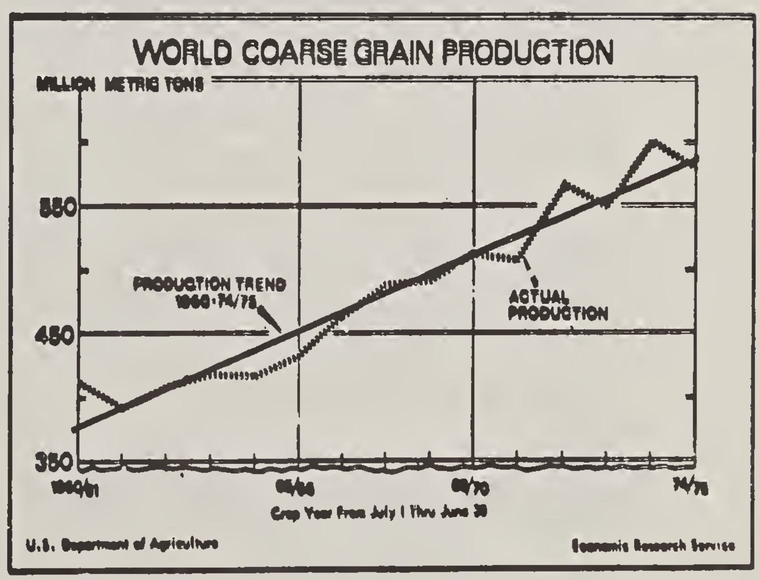
World feed grain production is now expected to total about 580 million tons, down from 598 million in 1974. The current estimate is sharply below that of a month earlier because of the large decline in the expected U.S. crop. World output is only a little under the rising trend, although considerably below last year's record level. Nearly as disappointing as the U.S. performance was the failure of the other leading exporting nations--Canada, Argentina, and Australia--to record substantial production increases. The brightest spot in the feed grain picture has been the prospect of a 100 million ton crop in the Soviet Union. Substantial shortfalls in production are expected in India and South Asia where coarse grains are an important component of human food supplies. The supply situation may even be somewhat tighter than these figures indicate because they do not include certain small and mixed grains which ordinarily have a negligible effect on the direction of total production. This year, however, there has been a significant reduction in the prospects for such grains in South Asia, PRC, the Sahel, and Ethiopia. Total demand for feed grains is expected to be eased a bit by increased feeding of wheat, particularly in Western Europe, because of a narrowing of price margins between corn and wheat. The Department's 10-million-ton reduction, since last month, in the estimate of West European feed grain import requirements reflects that assumption as well as possible lower feeding rates because of high feed grain prices and downward pressures on meat prices. The greatest uncertainties about the intensity of demand for feed grains concerns the impact of steep price rises upon feed utilization for which past history provides little guidance.

World production of oilseeds is expected to decline slightly due mainly to the lowered prospects for soybean production in the United States. Fortunately, the large crop in 1973 allowed a buildup of carryover soybean stocks equivalent to over 2 million tons of meal. In addition, the 1974 anchovy catch is up, and Peru may be able to export substantially more fishmeal. Brazil's soybean production and exports will also probably be up. Peanut production is off in Asia, particularly India, and will cause some reduction in exports. On the other hand, the African peanut crop is expected to be larger than the poor crop in 1973, increasing export availabilities there.

The world meat situation has turned around completely, and prices have tumbled sharply in both producing and importing countries, while feed prices remain high. Major importing countries have placed highly restrictive controls on beef imports. The European Community has over 125,000 tons of surplus beef in storage and has banned beef imports until October. (ERS)







U.S. AGRICULTURAL EXPORTS

In FY 1972, U.S. agricultural exports reached $8 billion. In FY 1973, we achieved a substantial volume increase going from somewhat over 60 million metric tons to over 90 million tons, and with favorable prices our exports moved to a record level of $12.9 billion. In FY 1974, the volume of U.S. agricultural exports increased to over 100 million metric tons and with higher prices reached an unprecedented value level of $21.3 billion.

The volume of our agricultural exports has more than doubled since 1970. However, about 85 percent of the gain in FY 1974 came from higher prices, particularly for feed grains, wheat, rice, soybeans, cotton, and many fruits and vegetables. All of the increase has occurred in commercial exports. Shipments under government programs have remained at or just below $1 billion a year recently with volume declining because of higher prices.

During FY 1974, the largest value increases were in wheat, feed grains, and soybeans. However, significant increases were registered in all of our major commodity groups.

World wheat production in FY 1975 is expected to be down by 7 or 8 million tons from last year's record production. Moreover, the greater part of the decline is anticipated to be a result of a smaller Soviet wheat crop. Production in major wheat exporting nations, including the United States, is expected to increase. Good to excellent wheat crops are also being harvested in the Middle East, Africa, and Western Europe.

World wheat exports are expected to decline from last season's level by about 5 percent, or about 3 million metric tons below last year's movement of approximately 70 million tons. Wheat and flour exports from the United States are anticipated to decline more sharply than the overall decline in world wheat movement. Last year's exports were around 31 million metric tons as compared to a currently estimated export volume of between 24.5 and 27.0 million tons in FY 1975. World stocks of wheat are expected to be modestly larger at the end of this marketing year, with the stock buildup primarily in the United States.

World feed grain production for 1974/75 is presently estimated to be about 20 million metric tons lower than the approximately 600 million metric tons produced in 1973/74. However, feed grain production outside the United States is expected to be larger in 1974/75 than in 1973/74 by about 10 million tons.

The shift in the world production pattern of feed grains predicates a sharp decline in the world total of feed grain movement, and it is estimated world exports will be down about 19 million tons or about 25 percent from the level of 1973/74. Obviously, for the United States, the decline in feed grain production in 1974/75 will require adjustments which will substantially modify the pattern of disappearance in 1973/74.

These necessary adjustments will be price-induced and will be spread over both exports and domestic utilization. They also point to a further drawdown in U.S. stocks at the end of the 1974/75 season.

As for the repercussion from the short crop on U.S. feed grain exports, we anticipate these will drop from about 44 million metric tons in FY 1974 (July/June) to around 21.3 to 26.7 million tons in FY 1975.

As we have noted previously, feed grain production in the world, exclusive of the United States, is expected to increase in the 1974/75 season. In particular, grain crops in Western Europe are excellent, and with right price relationships, Europe will feed considerably more wheat rather than attempt to export wheat and replace it with U.S. feed grains. Additionally, the major countries in the industrialized west are in a period of stagnation as far as economic growth is concerned, and demand will be off this coming marketing year as compared to the past two years.

At just over 14 million metric tons, the anticipated volume of U.S. soybean exports in FY 1975 will be up slightly from that of the previous year. Slightly higher shipments of soybean meal are expected while a modest decline in exports of soybean oil seems likely.

World output of oilseeds and meal is expected to decline in 1974 but will still be the second largest on record, following a sharp increase the previous year. Increased U.S. soybean stocks, up about 2 million tons on a meal basis from last year, plus the 1974 crop expected to be the second largest on record, should cushion the effects of the world decline.

U.S. cotton exports are expected to decline in FY 1975 to about 5 million running bales from the 5.7 million shipped last year. Prospective total offtake may be down even more than U.S. production as the world textile markets are relatively stagnant at present.

A small decline in U.S. exports of unmanufactured tobacco is expected. Strong demand for high quality leaf should continue. Some decline in our exports to European markets is expected to be offset by increases to markets in the Far East.

We expect our exports of rice to increase in FY 1975. World rice production will likely be several million tons short of last year's record crop. Excellent prospects in much of the world will be offset by a weak Indian monsoon, below normal rainfall in Northeast Thailand and the People's Republic of China, and some severe flooding in Bangladesh. A bumper U.S. rice crop is expected to mean increased cash sales to the Middle East and somewhat higher shipments to aid recipient countries.

We expect our exports of livestock and livestock products to drop in FY 1975. Cattle and poultry numbers are high in all major world exporting countries. Trade in beef and poultry products is being hampered by severe restrictions of imports into Canada and the European Community and, in the case of beef, Japan also. Our exports of fruits and vegetables should remain at a level close to that of FY 1974.

In summary, in the year ending June 30, 1974, agricultural trade contributed $11.8 billion to the positive side of our international trade account. This more than offset a non-farm trade deficit, with the result that the total U.S. trade position ended up on the positive side of the ledger. In fiscal year 1975, due to anticipated declines in exports of wheat and feed grains, the volume of our exports will significantly decrease. Perhaps the decline will be as much as 25-26 million metric tons. Annual average price levels for grains in the current year will be higher than the fiscal year just ended and this will provide some offset to the decline in agricultural export volume.

Thus, agricultural exports will continue to make a major positive contribution to farm income and the U.S. balance of payments. While value estimates can only be tentative at this time, we foresee the total value of our agricultural exports in FY 75 around the $20-21 billion level. This is down from last year but far ahead of any other year.

With the value of U.S. agricultural imports increasing and with our import bill sharply up because of petroleum price increases, we are going to need every dollar our productive agricultural industry can earn. (FAS)

AGRICULTURAL OUTLOOK AND THE FOOD SITUATION

The sharp reduction in U.S. grain crop expectations has forced significant upward revisions in estimates of crop prices for the second half of 1974. Livestock prices are also revised upward but to a lesser degree.

Bad weather--too much rain in the spring and then drought and heat waves this summer--has slashed projected crop yields and reduced estimates of harvested acreage. Only wheat and rice have avoided major difficulties. Total crop production may be about 6% below last year. As a result, crop prices have strengthened since spring and will continue high through the second half of 1974. Even with the recent rains, and assuming a late frost this fall, there seems little likelihood of weakness in crop prices, particularly feed grains and soybeans, over the next several months. Crop prices in 1974 are likely to average 31% above 1973 levels.

Although reduced grain production and higher prices will have a substantial impact on livestock and poultry output, the level of red meat output will not be affected much during the remainder of 1974 because of the lengthy production cycle for cattle and the time required to change production plans for hogs. However, broiler, egg, and milk production will fall off sooner. Livestock prices had dropped in the spring, and beef production had reached record levels in the first half of 1974.

The second half's developments in red meat production will offset much of the production adjustments in broilers, eggs, and milk and lead to only moderate rises in farm prices. For the year, prices received by farmers for livestock and livestock products could average 6% below 1973.

However, prices received for all farm products in 1974 will average about 8% higher than last year. They will likely continue upward into 1975 as feed grain supplies dwindle and livestock inventories are worked down to levels compatible with range and pasture conditions and financial developments. A stronger price advance could result if crop conditions were to deteriorate further, or if nonfed cattle slaughter were slowed by improved moisture conditions on ranges.

To derive the retail food price prospects implied by these developments, it is necessary to eliminate non-food commodities and consider the remaining prices in the context of the consumers' purchases. The market basket for farm foods provides such a vehicle.

Utilizing the market basket concept and weights, this year's expected 8% increase in prices received by farmers for all farm products (including nonfood commodities) translates into a roughly 5½% increase in the farm value of the domestically produced farm foods.

However, the major impetus to higher retail food prices remains the increase in farm-retail spreads. Reflecting rising wage rates, increased energy and material costs, and general inflation, farm-retail spreads in 1974 will likely average nearly 21% higher than a year earlier. Spreads in the first half of 1974 were up 23%.

The transition from the farm food market basket to the more traditional Consumer Price Index for food at home is achieved by adjusting to a concept which includes fishery products and imported foods such as sugar, coffee, tea, and bananas.

Retail prices of food consumed at home rose sharply in the first quarter and then more moderately in the second. Further advances now appear likely during the last half of 1974 and the first half of 1975.

Instead of remaining steady in the third quarter and easing slightly in the fall as anticipated prior to the reduced farm output estimates, retail prices may advance about 3% during the third quarter and a little more in the fourth quarter. For the year, retail prices for food at home will likely average around 15% above 1973, compared with last year's boost of a little over 16%.

The general economic environment remains of crucial importance to the agricultural economy. It now appears that inflation will continue at a 9-9½% annual rate in the second half with little or no real economic growth in sight. Growth in disposable incomes will continue to be eroded by inflation, with real incomes in 1974 likely to decline 3% below 1973. Unemployment will likely reach 6% by year-end and may go higher in 1975.

The outlook for farm income reflects the cost squeeze the farmer is in. Farm income has receded from the record 1973 levels. Declining farm prices, particularly in the second quarter of 1974, have occurred at the same time as big boosts in farming costs have occurred.

The reduced crop production prospects leave the farm income picture for the remainder of 1974 extremely volatile. However, the reduced farm marketings will be more than offset by farm prices averaging higher for all of 1974 than 1973.

Thus, farmers' cash receipts in 1974 will increase by around $7½ billion over 1973. But realized gross income will rise only about $6 billion; Government payments will fall nearly $2 billion. Meanwhile, an expected $12 billion increase in production expenses will more than cancel the gains in gross farm income and reduce net farm income to around $27 billion, a drop of slightly over $5 billion from the record $32.3 billion of last year. This would, however, far exceed the incomes of any other prior year. (ERS)

THE FEED-LIVESTOCK SITUATION

Reduced feed grain production this year will have a substantial impact on livestock and poultry output. Red meat output will not be affected much during the remainder of 1974 because of the lengthy production cycle for cattle and the time required to change production plans for hogs. However, broiler and milk production will fall off before the end of the year. And 1975 livestock output will reflect small supplies of fed beef and much lower supplies of pork and broilers.

Combined production of corn, sorghum, oats, and barley is forecast at 175 million tons, 15 percent less than last year. Also, reduced beginning stocks will contribute to a smaller feed grain supply in 1974/75. Available feed grain supplies per animal unit during 1974/75 will be down to the lowest level since the drought of 1947.

There will be sharp reductions in both domestic usage and exports of feed grains in 1974/75. High feed prices in relation to livestock and poultry prices will limit domestic utilization of feedstuffs. The number of grain consuming animal units may drop about 10 percent with all major classes of livestock and poultry contributing to the decline. In addition, a return from excessive to more normal market weights for hogs, fed cattle and broilers will also help reduce feed usage.

World demand for feed grains has been strong because of low world stocks and consumer eagerness to eat more red meat and poultry. However, relatively small domestic supplies coupled with high prices will be a major factor limiting the flow of U. S. corn to overseas markets.

The August crop report also indicated that 1974 soybean output will decline from both smaller acreage and lower yields. Total supplies for the 1974/75 season will drop 9 percent from last season. Thus, the expansion trends in domestic soybean crushing and in soybean exports will be reversed, and soybean stocks by the end of the 1974/75 season will again be down to about pipeline levels. Domestic soybean meal supplies will continue tight.

Corn prices, No. 2 yellow at Chicago, rose from $2.70 per bushel in early June to about $3.70 in mid-August. Prices will remain high at least until we have solid information on the 1975 crop. In fact, corn prices this fall may average near August prices. Also, protein feed prices will stay high through the winter, but probably below 1973 highs.

Broiler meat output during the first half of 1974 was about 6 percent above the first half of 1973 but production has been declining in recent weeks. Placements for late summer marketings are off moderately and eggs set in recent weeks indicate a sharp decline in broiler marketings this fall. With the recent profit squeeze, broiler marketings in the first half of 1975 may run 10 to 20 percent below marketings during January-June 1974. The decline in broiler marketings later this year may result in a less than usual seasonal price decline this fall. Price strength is likely early next year, but advances will be tempered by large supplies of nonfed beef.

Turkey output was up about a third in January-June during the seasonally light months. Smaller increases will continue into fall, but output will drop substantially below year earlier levels late in the year. More cuts in production seem likely in the first half of 1975 because decisions are now being made about turkey breeder supply flocks that will produce next year's poults. Turkey prices will likely increase only moderately during the fall even though output will be down since cold storage stocks are large.

Egg production slightly trailed 1973 levels in the first half, reflecting lower layer numbers as the rate of lay was up. Production is expected to continue lower for the rest of this year and then drop off further next winter and spring. Prices rose during July and early August and they likely will rise further this fall. Winter prices may hold fairly close to autumn prices, but some weakness is in prospect for next spring.

Milk production in July rose above a year earlier for the first time since September 1972. The decline in milk cow numbers slackened to around 2 percent, while output per cow continued to gain from depressed levels of a year earlier. However, these production gains are likely to be temporary. Higher feed prices will probably limit milk production in the fourth quarter. For all of 1974, milk production may total around 1½ percent below 1973's 115.6 billion pounds. First half 1975 milk production likely will rise seasonally and total nearly the same as in January-June this year. Farmers got $7.55 per 100 pounds for milk in July, down $1.40 from the March high, although some 15 percent above July 1973. Milk prices likely will rise seasonally this fall and winter.

Pork production this summer is substantially exceeding last summer's unusually low level. But summer output is seasonally lower than in the spring, and barrow and gilt prices are running in the upper $30's. Seasonally larger pork production this fall and increased supplies of lower grade beef are expected to keep hog prices in the low $30's this fall. Smaller supplies of pork and higher hog prices are in prospect for 1975. Farrowing intentions as of June 1 suggested smaller pork

supplies in early 1975. Recent increases in corn prices could lead to a 5 to 10 percent cut in first half pork production and a similar reduction in the number of sows farrowing during December 1974-May 1975. Less pork along with reduced broiler output likely will boost hog prices into the upper $30's next winter and spring.

The Nation's cattle herd has been building rapidly for several years as stockmen delayed selling cows and have been holding back young heifers to expand their breeding herds in response to rising feeder cattle prices. The total cattle herd had risen to 127-1/2 million head at the beginning of this year, up 13 million head in just 3 years. And another 6 to 8 million are being added this year. Also, the calf crop will approach 51 million head this year, up 4 million head in 3 years.

But total cattle and calf slaughter has remained at about the same level since the mid-1960's. So there is a very large supply of feeder cattle that could support higher slaughter rates during the next few years. With ranges and pastures heavily stocked, continued dry weather this fall would force a large movement of both cows and young cattle to market. Most of the cows would be slaughtered. Feed costs will be high, so cattle feeders will be hesitant to fill lots and many stockmen will not be financially inclined or able to carry many more cattle through the winter. Many steers and heifers will be slaughtered off grass. The result will be large supplies of low grade beef in late 1974 and even larger supplies in 1975.

Summer cattle slaughter is running substantially larger than last summer's low level, with most of the increase due to slaughter of cattle direct from the range rather than through the feedlot. Choice steer prices may average in the mid-$40's, $4 to $7 higher than in the spring. But prices of cows and grass-fed steers and heifers are not fully sharing in this price strength.

This fall, fed cattle will be in short supply but larger slaughter of cows, steers, and heifers directly from grass could boost total slaughter moderately higher than a year earlier, and weaken the fed cattle market. Choice steer prices in October-December may average in the low $40's. Greater price weakness is likely for cows and calves.

First half 1975 slaughter likely will be seasonally smaller than in the fall but considerably larger than in the first half of this year. Cattle prices may rebound a bit from fall lows.

But if moisture conditions improve soon, forced movement of cattle to slaughter could be slowed and cattle prices this fall and early next year would be influenced much more by the expected low level of feedlot marketings. In this event, Choice steer prices could move higher, exceeding $50. Further range deterioration, however, resulting in much larger cattle slaughter could put considerable downward pressure on cattle prices. (ERS)